



TEXAS PROPERTY TAX MANUAL FOR THE APPRAISAL OF AGRICULTURAL LAND

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Texas State Comptroller of Public Accounts

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PART I.

INTRODUCTION

Until the 1960's, Texas farm and ranch land was taxed on its market value—the price a buyer would pay for it in an ordinary market transaction. As Texas became more urbanized, however, farm and ranch land in many cases increased dramatically in value, especially in developing areas. Even if a farmer or rancher never intended to develop his land, its value increased because it could be developed.

Concerned that taxes could become so high that farmers and ranchers would be forced to abandon agriculture, voters in 1966 approved the first agricultural appraisal law. A constitutional amendment added Section 1-d to Article VIII of the constitution. This section provides that certain kinds of farm land be appraised not at their market value but at their productivity value—a value based solely on the land's capacity to produce agricultural products. In many cases, this amendment substantially reduces taxation of land that qualifies.

Section 1-d is very restrictive. It applies only to land owned by families or individuals. Agriculture must be the owner's primary occupation and primary source of income. In early years, procedures for administering the special appraisal varied widely.

In 1978, voters again amended the constitution, adding a second, more liberal, agricultural appraisal law, Section 1-d-1, that substantially expanded eligibility for productivity appraisal. Corporations as well as individuals may qualify under 1-d-1. The income and occupation tests don't apply, and the new law also applies to timber land. (The State Property Tax Board publishes a separate manual—*Guidelines for the Valuation of Timberland*—describing application, qualification, appraisal, and rollback procedures for timberland.) The new constitutional amendment took effect in 1979. In enacting the Property Tax Code that same year, the legislature adopted Secs. 23.51-23.57, implementing Section 1-d-1.

The Property Tax Code assigns most agricultural appraisal responsibilities to the chief appraiser. However, Sections 23.41 and 23.52 of the Tax Code direct the State Property Tax Board (SPTB) to develop agricultural appraisal manuals for both 1-d and 1-d-1 land and distribute them to appraisal districts. Section 23.52 of the Tax Code also directs the SPTB to develop procedures for verifying that land qualifies for agricultural appraisal.

This manual sets out both appraisal procedures and eligibility requirements. The methods described in the manual are required; appraisal districts are required by law to follow them. Examples and figures are illustrative and not mandatory. This manual has been adopted under the board's rule-making power. A committee composed of the Governor, the Comptroller, the Attorney General, the Agriculture Commissioner, and the Commissioner of

Section 23.41(b), Property Tax Code. Appraisal.

(b) The State Property Tax Board shall promulgate rules specifying the methods to apply and the procedures to use in appraising land designated for agricultural use.

Section 23.52(d). Appraisal of Qualified Agricultural Land.

(d) The State Property Tax Board by rule shall develop and distribute to each appraisal office appraisal manuals setting forth this method of appraising qualified open-

space land, and each appraisal office shall use the appraisal manuals in appraising qualified open-space land. The State Property Tax Board by rule shall develop and the appraisal office shall enforce procedures to verify that land meets the conditions contained in Subdivision (1) of Section 23.51 of this code. The rules, before taking effect, must be approved by a majority vote of a committee comprised of the following officials or their designees: the governor, the comptroller, the attorney general, the agriculture commissioner, and the Commissioner of the General Land Office.

the General Land Office has approved it. The manual contains six parts:

- I. Introduction:** an overview of the laws and introduction to the manual
- II. Qualification of Land:** qualification standards and application procedures under the newer Section 1-d-1 laws
- III. Agricultural Appraisal Process:** methods and procedures for appraising land under Section 1-d-1 laws
- IV. Rollback Taxes on 1-d-1 Land:** when land's eligibility ends under the Section 1-d-1 laws, and procedures for calculating a rollback tax
- V. Agricultural Appraisal under Section 1-d:** qualification standards, application, and rollback procedures under the older laws
- VI. Appendices, Figures, and Forms:** Questions and answers, text of the agricultural appraisal laws, description of the owner-operator budget method, an example showing how to develop an agricultural appraisal system, and model forms.

THE AGRICULTURAL APPRAISAL LAWS

The agricultural appraisal laws have a number of popular names. The new Section 1-d-1 laws (Art. VIII, Sec. 1-d-1, Texas Constitution, and Secs. 23.51-23.57, Property Tax Code) are often called "open-space" laws, because the sections use the term "open-space land." They are often also called 1-d-1 laws, after the number of the section of the constitution. Because 95 percent or more of the eligible land in Texas now qualifies under the newer law, this manual emphasizes its procedures and requirements. The older laws are still in effect, and occasionally land does qualify under them. These laws are often called "ag-use" or 1-d laws (Art. VIII, Sec. 1-d, Texas Constitution, and Secs. 23.41-23.46, Property Tax Code). In this manual, when we refer to a procedure under the older law, we will refer to it as 1-d, 1-d agricultural appraisal, or 1-d productivity valuation to distinguish it from the newer 1-d-1 procedures.

The special appraisal technique also has several popular names, including productivity appraisal, special appraisal, and agricultural appraisal. We will use the term agricultural appraisal or productivity valuation throughout the manual.

Several elements are common to both laws:

- A property owner must apply for agricultural appraisal. The owner must file a special form with the appraisal district before the deadline.
- The agricultural appraisal applies only to land, fences, and certain appurtenances. It doesn't apply to improvements or equipment.
- The chief appraiser must act on each application he receives and notify the property owner if he denies the application or needs more information.
- A property owner may appeal denial of agricultural appraisal and a change of use determination to the appraisal review board.
- Land that receives agricultural appraisal is subject to a tax penalty (the "rollback tax") when taken out of agricultural use. Land appraised under 1-d is also subject to a rollback if it is sold or otherwise transferred to a new owner.

There are also some key differences in the two laws:

- 1-d requires the property owner to reapply every year. 1-d-1 requires reapplication only when the property changes ownership or agricultural-use class or when the chief appraiser requires a new application.
- 1-d requires the property owner to be an individual. 1-d-1 allows both individuals and corporations to qualify.

- 1-d requires that agriculture be the owner's primary occupation and principal source of income. The property owner must show that agriculture is conducted for profit. 1-d-1 has no occupation, income, or profit requirements. Instead, it focuses on whether the land is used to the degree of intensity typical in the area for a particular agricultural enterprise.
- 1-d requires that land be devoted principally to agriculture for the three years immediately preceding qualification. 1-d-1 requires devotion principally to agriculture for five of the seven preceding years.
- 1-d requires a rollback tax when the property is taken out of agricultural use or when it is sold. The rollback recaptures taxes for the three preceding years. 1-d-1 requires a rollback tax only when agricultural operations cease or the use changes, and the rollback recaptures taxes for the five preceding years.

The roles of tax officials are the same under both laws.

The chief appraiser:

- creates a land classification system covering each type of agricultural land typical in the district;
- calculates typical net income, based on a variety of sources, for prudently managed agricultural operations;
- determines land use and degree of intensity standards for qualifying land;
- provides applications and acts separately on each agricultural appraisal application;
- determines if and when a change of use occurs and sends notice of the determination to the property owner;
- appraises each property and prepares appraisal records listing information on agricultural property; and
- notifies the property owner of the appraisal district's actions if the Property Tax Code requires it.

The tax assessor:

- calculates taxes on the property;
- delivers tax bills as usual; and
- calculates and delivers a rollback tax bill when the rollback tax becomes due.